

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

November 17, 2009

The Capital Projects and Bond Oversight Committee met on Tuesday, November 17, 2009, at 1:00 PM, in Room 169 of the Capitol Annex. Representative Susan Westrom, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Bob Leeper, Co-Chair; Representative Susan Westrom, Co-Chair; Senator Julian M. Carroll; Representatives Robert R. Damron, Steven Rudy, and Jim Wayne.

Guests: Bob Wiseman and Rob Mullens, University of Kentucky; Larry Owsley, University of Louisville; Sandy Williams and John Covington, Kentucky Infrastructure Authority; John Hicks, Governor's Office for Policy and Management; Sam Ruth, Department for Facilities and Support Services; Katie Smith, Department of Financial Incentives, Economic Development Cabinet; Tom Howard and Brett Antle, Office of Financial Management; Rick McQuady and John Herald, Kentucky Housing Corporation; and Scott Aubrey, Division of Real Properties.

LRC Staff: Don Mullis, Kristi Culpepper, and Samantha Gange.

Representative Westrom called on Don Mullis, Committee Staff Administrator, to discuss correspondence and information items. Mr. Mullis said members' folders contained several correspondence items; a notice of advertisement of lease spaced from the Finance and Administration Cabinet; a report from the Division of Real Properties on Energy Efficiency in Leased-in Facilities; and correspondence from the Kentucky Infrastructure Authority (KIA) in response to members' questions at the October meeting.

Next Mr. Mullis noted that members' folders also contained several information items: a memo from Kristi Culpepper, Committee Analyst, regarding KIA Fund A loans to the Department of Parks; another memo from Ms. Culpepper regarding appropriation-supported debt service and authorized but unissued debt; and the staff and bond market updates.

Mr. Mullis then reported that KIA staff has requested a correction be made to the June 16, 2009 minutes. The minutes reflect an incorrect loan amount of \$2 million for a Fund A loan for Sanitation District No. 1. The correct loan amount as reported to the Committee was \$2.2 million.

Representative Wayne made a motion to approve the amended minutes of the June 16, 2009 meeting. The motion was seconded by Senator Leeper and approved by voice vote.

Representative Westrom called on Bob Wiseman, Vice President for Facilities Management, University of Kentucky (UK) to present several projects. Mr. Wiseman asked for the Committee's approval of an unbudgeted project to replace the Wildcat Lodge Student Housing. The project scope is \$7 million from private funds. The Wildcat Lodge is a residential facility that houses the men's basketball team and other university students. This project will replace the renovation of Wildcat Lodge, which the Committee approved at its January 2009 meeting. The project was approved by the UK Board of Trustees as well as the Council on Postsecondary Education (CPE).

Representative Wayne asked who occupies the housing facility and how are the residents selected. Mr. Wiseman said that under NCAA rules, 51 percent of the residents of the facility have to be non-athletes and the other 49 percent are men's basketball team players. He said the facility would comprise 36 to 40 beds. Mr. Wiseman indicated that the non-athletes are selected through UK's housing office.

In response to another question from Representative Wayne, Rob Mullens, Deputy Athletics Director, UK, said all women's basketball players are placed in the newly built dorms.

Representative Wayne asked what message does it send to the women basketball players when the men basketball players have their own separate housing facility. Mr. Mullens indicated that because of the attention the men's basketball team receives, there is a different security interest than the women's basketball team from a fan-attracting standpoint. Mr. Wiseman added that all student housing is important to UK.

Representative Wayne said he was concerned about discrimination as well as a caste system on UK's campus. Mr. Wiseman responded that even though the women and men's basketball teams are separate, the women are placed in comparable housing to the men's team. He said he thought that UK is treating the women athletes the same as the men athletes.

Senator Carroll commented that the funds to build the Wildcat Lodge are coming from private donors and it is unlikely that UK would receive private funds for a women's basketball housing facility.

Representative Wayne asked if there had been a name change to the new Wildcat Lodge. Mr. Wiseman said that the UK Board of Trustees approved the name of the Wildcat "Coal" Lodge at their October meeting. He indicated that the donors requested

the name. Representative Wayne commented that he had serious concerns about the facility as well as the name.

In response to a question from Representative Rudy, Mr. Wiseman said the 51 percent of the non-athlete residents are all male.

Representative Damron made a motion to approve the Wildcat Lodge housing project. The motion was seconded by Senator Carroll. Five members voted affirmatively, and one member voted “No.” The motion passed.

Next Mr. Wiseman asked the Committee for its approval of an unbudgeted project for the renovation of Nutter Training Center football meeting rooms. The project scope is \$750,000 from private funds. The project will renovate existing space to provide a larger meeting area with theater-style seating to be used by the offensive, defensive, and individual position meeting rooms. The project was approved by the UK Board of Trustees and CPE.

Representative Rudy made a motion to approve the Nutter Training Center project. The motion was seconded by Representative Damron and passed unanimously by roll call vote.

Mr. Wiseman asked for the Committee’s approval to increase the amount of federal funds for the renovation of the Nursing Building. The revised scope will be unchanged at \$3,088,000, but the amount of federal funds will increase up to \$1,883,970. The funding source is the U.S. Department of Health and Human Services and the funds will be used to increase the amount of student space on the third floor of the Nursing Building. The project was approved by the UK Board of Trustees and CPE.

Representative Rudy made a motion to approve the increase. The motion was seconded by Senator Leeper and passed unanimously by roll call vote.

Representative Westrom called Larry Owsley, Vice President for Business Affairs, University of Louisville, to the table. Mr. Owsley asked for the Committee’s approval of a scope increase of \$1 million for the Expand and Renovate the Dental School project for a revised scope of \$43,700,000. The restricted funds are derived from internal sources and are required to meet higher than expected bids. The funds will be used to renovate 92,000 gross square feet (gsf) of the Dental School and construct a 14,300 gsf addition to create a state-of-the-art operation and refurbish waiting areas and associate laboratory/examining areas.

Representative Wayne made a motion to approve the increase. The motion was seconded by Senator Carroll and passed unanimously by roll call vote.

Next Representative Westrom called on John Covington, Executive Director, KIA, and Sandy Williams, Financial Analyst, KIA; and John Hicks, Deputy Director, Governor's Office for Policy and Management, to present several loans. Ms. Williams said that the first loan request was a \$500,000 Fund A loan for the Commonwealth of Kentucky Department of Parks, General Burnside State Park in Pulaski County for construction of an in-ground pumping station, force main, sewage holding tank, gravity connection piping, and other improvements. The loan term is 20 years with an interest rate of three percent. The funding for this loan comes from the American Recovery and Reinvestment Act.

The second loan request was a \$500,000 Fund A loan for the Commonwealth of Kentucky Department of Parks, Green River State Park in Taylor County for the installation of two pump stations and a new force main. The loan term is 20 years with an interest rate of three percent. The funding for this loan comes from the American Recovery and Reinvestment Act.

The third loan request was a \$2.5 million Fund A loan for the Commonwealth of Kentucky Department of Parks, Pennryle Forest State Resort Park in Hopkins, Christian, and Caldwell Counties to replace a 50-year-old wastewater treatment plant. The loan term is 20 years with an interest rate of three percent. The funding for this loan comes from the American Recovery and Reinvestment Act.

Senator Leeper said he was concerned that these projects will create long-term debt of the Commonwealth that will likely be paid from the Department of Parks' operating budget or the state's general fund. Additionally, he said that the General Assembly has not specifically appropriated funds for these loans. Senator Leeper indicated he would not be comfortable setting this precedent. Mr. Hicks said he believes that action has already been taken by the General Assembly to authorize these projects. He said first, in 1988 the General Assembly gave KIA the authority to make loans to state agencies. Secondly, the capital construction section of the budget bill gives the Executive Branch the authority to finance KIA water and sewer projects that are not specifically identified. Lastly, these funds are 100 percent federally-funded through the American Recover and Reinvestment Act and KRS 45.760(14) provides that a capital construction project may be authorized even though it is not specifically listed in the Appropriations Act, if 50 percent or more of the cost is funded by federal or private funds.

Senator Carroll asked what the precedent was for this in the past and what amount of funds would be required in the next budget to make the Parks' annual debt-service payments. Mr. Hicks said that there is no precedent for KIA loans to state agencies. He said that the debt service payments for the General Burnside and Green River projects would be \$16,491 each annually and the Pennryle project would be \$82,453 annually, totaling \$115,435 annually for all three projects.

In response to another question from Senator Carroll, Ms. Williams said all three Parks' projects are 100 percent funded through the American Recovery and Reinvestment Act.

Senator Carroll asked if KIA would lose the American Recovery and Reinvestment Act funds if the Committee did not approve the Parks' projects. Senator Leeper commented that the way he understood it was that KIA would reallocate that money to other projects and the stimulus funds would not be lost. Mr. Covington responded that the money would not be lost because KIA has made contingency plans in case of projects not being able to meet the required construction start date of February 16, 2010 or if projects were not approved by the KIA Board or the Committee.

Representative Damron commented that KIA has other projects that would qualify for stimulus funding. He also said that he did not understand why the Executive Branch could not wait until January 2010 when the General Assembly is in session and can make the decision of what funds it wants to appropriate.

Representative Westrom requested a motion to approve the project. No motion was made, and the three Fund A loans to the Department of Parks were not approved.

Next Ms. Williams presented a fourth Fund A loan request for the City of Bowling Green in Warren County. The City is requesting an increase in the amount of \$8,428,680 to the \$43,307,280 Fund A loan approved by the Committee at the May 2008 meeting. The increase results from the change in the way the utility will handle bio-solids. The new loan amount is \$51,735,960 with a 20 year term and an interest rate of one percent.

Representative Westrom asked if this was the largest Fund A loan KIA has made. Ms. Williams responded that KIA has made several other large loans to borrowers that serve big communities.

Ms. Williams said the fifth loan request was a \$7.5 million Fund A loan for the City of Hopkinsville in Christian County for the Phase VI Sewer project. The loan term is 20 years with an interest rate of two percent.

The sixth loan request was a \$122,429 Fund A loan increase to the \$489,469 Fund A loan approved by the Committee in October 2009 for the City of Falmouth in Pendleton County for the Pendleton County High School Extension project. The new loan amount is \$611,898 with a 20 year term and an interest rate of one percent. The funding for this loan comes from the American Recovery and Reinvestment Act.

Senator Carroll made a motion to approve the three Fund A loan requests. The motion was seconded by Representative Rudy and passed unanimously by roll call vote.

The seventh loan request was a \$3,251,590 Fund F loan for the City of Hardinsburg in Breckinridge County for the McQuady to Cloverport and Rough River/Highway 259 East Waterline Extension project. The loan term is 20 years with an interest rate of one percent.

The eighth loan request was a \$1,590,604 Fund F loan for the City of Greenup in Greenup County for the Phase VII Waterline Extension project. The loan term is 20 years with an interest rate of two percent. The funding for this loan comes from the American Recovery and Reinvestment Act.

Representative Westrom asked if there was a backup plan in place in case the Community Development Block Grant is not awarded to the City of Greenup. Ms. Williams said that KIA has been working very closely with the federal grant office with the Department of Local Government to ensure the grant will be awarded. She said that if the grant is not awarded KIA has a contingency plan in place.

Representative Rudy made a motion to approve the two Fund F loans. The motion was seconded by Representative Wayne and approved unanimously by roll call vote.

Ms. Williams indicated that various coal and tobacco development grants authorized by the General Assembly were included in members' folders. Each project was authorized in a budget bill and no further Committee action was needed.

Representative Westrom called on Katie Smith, Deputy Commissioner, Department of Financial Incentives, Economic Development Cabinet, to present a report. Ms. Smith reported an amendment to a previously approved Economic Development Bond (EDB) grant. In January 2009, the Committee approved a \$100,000 EDB grant for the City of Richmond for the benefit of Sub-Zero Wolf, Inc. to assist with locating a new manufacturing facility. Sub-Zero agreed to create a minimum of 100 new, full-time jobs by December 2011 and maintain the 100 jobs and wages for an additional three years. As a result of the recent economic downturn, the company requested an extension of the timeframe to meet the job and wage requirement from December 2011 to December 2013. The Kentucky Economic Development Finance Authority (KEDFA) approved the extension at its Board meeting. No Committee action was required.

Next Representative Westrom called Tom Howard, Executive Director, Office of Financial Management (OFM), and Brett Antle, Deputy Director, OFM, to the table. Mr. Antle first reported two new bond issues. The first new bond issue was for the State Property and Buildings Commission (SPBC) Road Fund Revenue Refunding Bonds, Project No. 73 (Third Series) in a principal amount not to exceed \$15 million. This bond issue will refund bonds from SPBC Project 73 for present value savings (estimated at 2.848 percent of refunded bonds).

Senator Carroll made a motion to approve the new SPBC bond issue. The motion was seconded by Representative Rudy and passed unanimously by roll call vote.

Mr. Antle then reported the second new bond issue for KEDFA Healthcare Facilities Revenue Bonds, Series 2009 (Madonna Manor, Inc.) in an amount not to exceed \$33 million. Proceeds from this conduit bond issue will finance the acquisition, construction, and equipping of health care facilities at 2344 Amsterdam Road in Villa Hills, Kentucky.

Representative Wayne made a motion to approve the KEDFA bond issue. The motion was seconded by Representative Wayne and passed unanimously by roll call vote.

Next Mr. Antle reported a change to a bond issue for KEDFA Healthcare Facilities Revenue Bonds, Series 2009 and Series 2010 (Masonic Homes of Kentucky, Inc. project). This bond issue was approved by the Committee in July 2008 and is being resubmitted by KEDFA with some changes. However, the amount of bonds, use of proceeds, and source of repayment have not changed. Proceeds from this conduit bond issue will 1) construct and equip a new 186,000 square foot healthcare facility in Louisville to provide 136 skilled care nursing beds and inpatient and outpatient rehabilitation, dialysis, and dementia services; and palliative care; and 2) refinance a \$2 million line of credit established to pay for improvements to long-term care facilities located in Shelby County.

Senator Carroll made a motion to approve the change for the KEDFA bond issue. The motion was seconded by Representative Rudy and passed unanimously by roll call vote.

Representative Westrom asked Rick McQuady, Chief Executive Officer, Kentucky Housing Corporation (KHC), and John Herald, Chief Financial Officer, KHC, to report on the status of KHC's participation in the U.S. Treasury's New-Issue Bond program. Mr. McQuady said the Commonwealth of Kentucky was allocated approximately \$220 million for single-family bonds and \$46 million for multi-family bonds. This represents the long-term portion of any debt that KHC would issue. Mr. McQuady said this bond issue should close by December 23, 2009. No Committee action was needed. (At the Committee's October 2009 meeting, the Committee approved KHC to take the necessary steps to participate in this new program offered by the federal government.)

Mr. Antle returned to the table to report three new bond issues with the School Facilities Construction Commission (SFCC) debt participation for East Bernstadt Independent in Laurel County, Franklin County, and Jackson Independent in Breathitt County.

Representative Wayne made a motion to approve the three new SFCC bond issues. The motion was seconded by Representative Rudy and approved unanimously by roll call vote.

Representative Westrom called Mr. Hicks and Sam Ruth, Commissioner of Facilities and Support Services, Finance and Administration Cabinet, to the table. Mr. Hicks said the Finance and Administration Cabinet is reporting its approval of a new Emergency Repair, Maintenance, or Replacement project for the Northpoint Training Center in the amount of \$687,000. The project was necessitated by the riot that occurred in August 2009 and required the removal of debris from six buildings, some of which involved asbestos removal. Mr. Ruth said the removal of the debris has been completed. Funding for this project is provided from a portion of the insurance proceeds.

In response to a question from Representative Westrom, Mr. Hicks said the state converted the Northpoint facility into a medium-security correctional institution in 1982.

Senator Carroll asked how much the insurance proceeds were. Mr. Ruth said the insurance has not been settled yet. Mr. Hicks said the insurance proceeds are expected to finance the replacement of the six buildings that were lost to the fire as well as the re-housing of the inmates.

Senator Carroll made a motion to approve the project. The motion was seconded by Representative Wayne and passed unanimously.

Next Mr. Hicks said the Finance and Administration Cabinet is reporting its approval of a 100 percent federally-funded project for the Department of Military Affairs, Bluegrass Station for the Domestic Water Line Replacement project. The project scope is \$1,900,000 and will replace all existing cast iron water lines and incorporate the use of the existing underground concrete clear wells for fire water storage and pump station at Bluegrass Station in Fayette County. The project is funded by the American Recovery and Reinvestment Act through KIA's Drinking Water Revolving Loan Program (Fund F). Debt service for the loan will be paid from restricted funds generated by the operations of the station.

Senator Carroll asked if there was General Assembly authorization to repay the loan. Mr. Hicks said the repayments of the loan will be paid from the operating budget of the Department of Military Affairs, Bluegrass Station and future repayments of the loan must be authorized by the General Assembly every two years.

Senator Carroll made a motion to approve the unbudgeted project for Bluegrass Station. The motion was seconded by Representative Rudy and passed unanimously by roll call vote.

Representative Westrom indicated that the unbudgeted project for Tourism, Arts, and Heritage Cabinet, Department of Parks at Pennyrile Lake State Resort Park, has been removed from the agenda because of a lack of motion and approval from the Committee of the KIA Fund A loan for the Pennyrile project.

Next Mr. Hicks said the Finance and Administration Cabinet is reporting its approval of an allocation from the Capital Construction and Equipment Purchase Contingency Account for the Personnel Cabinet in the amount of \$1,580,000 to provide additional funding for the Kentucky Human Resources Information system (KHRIS). The total project scope is \$27,648,056. In addition, the Personnel Cabinet will be requesting additional funding in the 2010-2012 budget to meet the expected costs of the project.

Representative Wayne made a motion to approve the allocation. The motion was seconded by Representative Rudy and passed unanimously by roll call vote.

Next Representative Westrom asked Scott Aubrey, Assistant Director, Division of Real Properties, Finance and Administration Cabinet, to report two items relating to leases. Mr. Aubrey reported one emergency lease. He said that the Finance and Administration Cabinet has declared an emergency under KRS 56.805 to allow for procurement of temporary storm debris storage sites for the Transportation Cabinet. No action is required for emergency leases.

Mr. Aubrey said the second lease report was a lease modification for the Cabinet for Health and Family Services (Cabinet) in Jefferson County (PR-4948). The Cabinet has requested an allocation of 1,120 square feet of space in the common area to allow use of the ADA entrance for both floors being used. The improvements will consist of a door conversion to permit motorized wheelchairs, awning, and modification to the X-ray room. The cost of improvement is \$8,813.08 and will be amortized over the remaining lease term (through June 30, 2016). No Committee action is required.

With there being no further business, Representative Wayne made a motion to adjourn the meeting. The motion was seconded and the meeting adjourned at 2:15 p.m.